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Sugar Annual

Annual 2011

Approved By:

Maurice House

Prepared By:

Yvan Polet

Report Highlights:

The MY 2010/11 EU sugar market is very tight, as a result of below normal sugar imports, which already in MY 2009/10 led to decreased ending stocks. This is unprecedented, as the EU sugar market has always been supply driven, with cheap excess out-of-quota sugar available for EU industrial uses and exports. The EU has tried to counter the threat of sugar shortages by a series of emergency measures, from abolishing import duties, limiting exports, allowing out-of-quota sugar onto the EU market and opening an emergency import quota.

For MY 2011/12, the EU is having a hard time stimulating increased sugar beet planting, because of strong competition for acreage from high priced grains and farmer's recollection of the hardship of bad harvest weather in the autumn of 2010.

Executive Summary:

The EU sugar market is facing an unprecedented situation in MY 2010/11, as a significant decrease in sugar imports from ACP [1] countries is causing sugar supply problems. Sugar imports already decreased by more than 0.5 million MT during MY 2009-10, thus bringing down EU sugar ending stocks to pipeline levels. The continuing low level of EU sugar imports from developing countries has left EU sugar users scrambling for supplies, despite the second highest sugar yields ever from the 2010 sugar beet harvest after the record-breaking harvest 2009. The EU sugar supply situation has induced the European Commission (EC) to gradually step up measures to counter sugar shortages, from abolishing in-quota import duties in November 2010 to agreeing on further emergency measures as of March 2011. Because EU MY 2010/11 sugar ending stocks are expected to be critically low despite all emergency measures, the EC is stimulating increased sugar beet planting for harvest 2011.

^[1] Former colonies in Africa, the Caribbean and Pacific used to have preferential market access to the EU under the Cotonou Agreement.

Commodities:

Sugar, Centrifugal

Production:

First reports of EU farmers' beet planting intentions point toward an increase in EU sugar beet acreage for MY 2011/12 of 3-5 percent, or close to the MY 2009/10 acreage. This is triggered by the current sugar supply shortage in the EU. Some growers are anticipating that the EU will allow more sugar produced out-of-quota, intended for industrial uses, to be used for food processing, as was decided in March 2011 for MY 2010/11. EU sugar processors are asking sugar beet growers they contract with to increase acreage by at least 10 to 15 percent for the 2011 harvest, but it can be doubted whether farmers will follow suit. As a result of the sugar reform, sugar beet processors closed processing units and consolidated beet processing, which led to a significantly longer beet harvest and processing season. At least part of the harvest problems in the autumn of 2010 were attributed to this prolonged processing season. Farmers may resist increasing their harvest risk without receiving adequate compensation in their contractual arrangements. Also, the favorable outlook for continued high grain prices for the 2011 harvest year, make grain production a tough competitor for high cost, high risk sugar beet plantings.

Provisional EU estimates of total EU beet sugar production in marketing year (MY) 2010/11 reach 16.8 million MT raw sugar equivalents (RSE). This includes 14.8 million MT of sugar for the EU food market and 2 million MT RSE for industrial fermentation, most of it for bio-ethanol production, which is not covered in the above PSD. As anticipated, this is about 15 percent below MY 2009/10 all times record crop and still the result of the second highest sugar yield per hectare ever, despite a wet maturing season. The wet 2010 autumn and early frost led to sugar beet losses, especially in the United Kingdom where an estimated 2 million MT of sugar beet were lost from frost damage. This loss of sugar beet destroyed any UK out-of-quota production, but did not affect the in-quota sugar covered by this report. In March 2011, the EU released 500,000 MT of out-of-quota sugar on the EU market for food purposes. At the same time, this measure decreased the amount of out-of-quota sugar equivalent for industrial purposes, including fermentation and bio-ethanol production. Another consequence of this

regulation is that any carry-over of sugar from MY 2010/11 to the MY 2011/12 sugar quota becomes unlikely. Hence also the need for a stock replenishment in MY 2011/12.

EU sugar beet production												
	Area, thousands of Hectares				Sugar beet yield in MT per Hectare				Sugar content in percentage			
	08/09	09/10	10/11	11/12f	08/09	09/10	10/11e	11/12f	08/09	09/10	10/11e	11/12f
Austria	43.0	43.9	44.9	47.0	71.8	70.6	69.8	70.0	16.96	17.10	17.19	17.20
Belgium	60.3	63.5	59.5	62.0	68.6	82.7	73.2	75.0	17.82	18.40	17.14	17.20
Denmark	36.2	38.5	39.2	40.0	60.0	54.5	55.0	55.0	17.80	19.60	18.00	18.00
Finland	13.6	14.8	14.6	15.0	34.6	37.7	37.0	38.0	16.48	17.20	16.50	16.50
France	349.0	374.0	381.0	400.0	86.8	9.4	8.3	8.2	18.73	19.50	17.70	18.30
Germany	369.3	364.0	362.0	377.0	62.3	71.5	65.9	65.0	18.04	18.15	17.20	18.00
Greece	13.8	24.0	23.4	24.0	65.2	67.8	66.0	66.0	14.00	14.00	14.00	14.00
Italy	61.2	60.6	60.8	65.0	61.5	54.6	57.0	57.0	15.48	15.95	14.00	15.50
Netherlands	72.3	72.4	70.5	72.0	72.3	78.9	72.6	75.0	17.21	17.70	16.80	17.20
Portugal	0.3	0.2	0.3	0.3	40.8	40.9	40.9	40.9	13.45	14.39	14.73	14.73
Spain	50.7	46.9	45.2	45.9	82.1	80.7	71.9	73.8	17.91	17.47	17.71	17.73
Sweden	36.8	39.4	37.9	38.0	53.5	60.5	55.0	55.0	17.40	17.90	17.50	17.50
U.K.	119.8	119.3	115.0	110.0	63.8	69.9	55.5	63.6	17.65	18.00	17.50	17.50
Czech R.	51.3	53.7	57.4	57.0	58.3	60.9	59.3	59.0	18.04	16.85	16.65	16.40
Hungary	9.6	14.0	13.0	13.0	59.6	52.6	58.0	55.0	17.14	15.92	15.90	16.00
Lithuania	16.0	15.1	15.0	15.0	39.0	45.1	45.0	45.0	18.13	17.50	17.50	17.50
Poland	187.5	200.0	197.0	199.0	46.5	54.3	49.1	49.5	17.20	17.00	17.10	17.10
Slovak R.	11.1	16.0	17.7	17.0	61.1	56.3	50.9	51.0	17.51	16.89	16.89	16.90
Romania	20.4	21.3	22.0	22.0	34.6	38.3	38.8	38.5	15.00	17.40	17.50	17.10
Total EU-15	1226.2	1261.4	1217.8	1296.0	65.1	72.2	n.a.	n.a.	18.16	18.20	n.a.	n.a.
Total NMS	295.9	320.1	311.1	324.0								
Total EU-27	1522.2	1581.4	1528.9	1620.0	62.3	69.4	n.a.	n.a.	18.02	18.20	n.a.	n.a.

e: estimate; f: forecast

FAS estimates

Consumption:

EU domestic consumption is stable at around 17.5 million MT RSE. Over 70 percent of EU sugar consumption is used in the food processing industry, which took advantage of abundant domestic supplies in MY 2009/10. EU sugar consumption for MY 2010/11 is increasing marginally and retailers and food processors are scrambling to secure supplies. In MS that no longer produce sugar following the reform, importers and refiners have difficulty securing supplies. In Portugal, press reports indicated that retailers were limiting the amount of sugar that could be purchased by consumers in supermarkets. Depending on 2011 yields and world market supplies, this situation may continue throughout MY 2011/12.

Trade:

Imports

High world market prices for sugar continue to have a negative effect on EU sugar imports in MY 2010/11, despite the temporary lifting of the EU import duty. This is the result of decreased world sugar supplies and decreased exports from traditional EU suppliers, especially from developing ACP [1] countries. Other least-developed countries that gained duty-free access to the EU market under the Everything But Arms (EBA) agreement are not shipping any sugar to the EU. This is a continuation of the situation in MY 2009/10, in which EU sugar imports decreased by over 500,000 MT compared to

MY 2008/09 as a result of the end of the Cotonou agreement, instead of increasing as a result of the EBA implementation. Also, the 400,000 MT import quota for industrial uses is filling only slowly, after it went mostly unused in MY 2009/10 because of cheap out-of-quota sugar in the EU market.

This led the European Commission to announce the opening of additional zero-duty import quota of 300,000 MT. Although this quota will be open to all EU sugar importers, the goal is to provide raw sugar supplies for full-time refiners in sugar production deficient MS. As the leading sugar exporters have filled all of their other quota, this additional quota is expected to be quickly filled as well. Because of the limited sugar supplies in the EU, EU food processors are expected to import higher amounts under the EU re-export program, also known as inward processing, which waves the duty on imported sugar to be used in producing foods for re-export.

For MY 2011/12, EU sugar imports are forecast to increase as world supplies increase, but forecast to remain below the EU import safeguard level of 3.5 million MT.

Exports

For MY 2010/11, the EU opened a 650,000 MT export quota and EU sugar processors quickly applied for the full amount to benefit from the high world sugar market prices. At the beginning of 2011, the limited availability of sugar in the EU market became evident and no further export allowances materialized. As a result, EU MY 2010/11 exports are estimated to not exceed 1 million MT.

Because of tight ending stocks, MY 2011/12 sugar yields will have the greatest impact on EU MY 2011/12 sugar export levels.

EU sugar exports in MY 2009/2010 were even higher than anticipated at over 2.6 million MT, as exporters efficiently used opportunities offered by an additional 500,000 MT export quota beyond WTO limits and strong world demand. World prices were sufficiently higher than internal EU prices to justify exporting.

^[1] Former colonies in Africa, the Caribbean and Pacific used to have preferential market access to the EU under the Cotonou Agreement.

Stocks:

EU sugar stocks have decreased significantly in recent years, especially as EU support for sugar stocks ended in the sugar reform. This prompted strong additional sugar exports in MY 2009/10 when world demand and prices were strong, so that sugar processors could lower stocks to minimum pipeline levels. However, EU sugar stocks at the end of MY 2010/11 are expected to be so low as to warrant some stock rebuilding in MY 2011/12.

Policy:

EU takes exceptional measures to combat sugar shortages on the EU market

Tight sugar supplies in the EU food market, have led the European Commission to announce two exceptional measures after it had already halted the imposition of import duties on sugar as of November 2010, which allowed a fast take-up of the CXL [1] quota by major exporters.

Release of 500,000 MT of out-of-quota sugar

[Commission Regulation \(EU\) No 222/2011](#) [2] of March 3, 2011 created the possibility for the release of 500,000 MT of out-of-quota sugar on the EU market in MY 2010/11 and a potential repeat in MY 2011/12. This measure is a first as in the past the EU from time to time announced production cuts to counter overproduction, but it has never faced a reverse situation. [Commission Implementing Regulation \(EU\) No 293/2011](#) [3] announced an allocation coefficient of 67.1 percent for applications for this release, implying that the total demand for licenses was for 745,000 MT of out-of-quota sugar.

Because [Commission Regulation \(EU\) No 222/2011](#) has an expiry date of June 30, 2012, this regulation opens the possibility for the Commission to take a similar measure in MY 2011/12 if the EU sugar supply situation for the food sector remains tight. Anticipating such a move from the Commission, sugar beet processors are encouraging farmers to increase 2011 beet acreages by 10-15 percent. If beet farmers follow suit, this would require the beet processing season to increase 10-15 percent to 110-120 days, instead of the current 100-105 days, which are the result of the sugar processing consolidation from the sugar reform. Sugar beet farmers were already complaining that a 100-day processing season creates an unacceptable level of risk on them, as was demonstrated in the autumn of 2010 when bad weather at the end of the season destroyed crops (see Production section). It can hence be seriously questioned whether beet farmers will be willing to increase their risk, especially in light of a market situation, in which grain production is almost guaranteed to bring higher profits to the farm.

Opening of exceptional sugar import quota

Through [Commission Implementing Regulation \(EU\) No 302/2011](#) [4] of March 28, 2011, the EU opened an exceptional import tariff quota of 300,000 MT of sugar in the 2010/11 marketing year. This exceptional import quota will open April 1, 2011 and will close on September 30, 2011, unless fully filled before this date.

[1] The CXL quota continued Finland's preferential sugar import quota when it acceded the EU in 1995.

[2] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:060:0006:0009:EN:PDF>

[3] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:079:0008:0008:EN:PDF>

[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:081:0008:0009:EN:PDF>

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal EU-27	2009/2010		2010/2011		2011/2012	
	Market Year Begin: May 2009		Market Year Begin: May 2010		Market Year Begin: May 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2,232	2,232	2,375	1,447		1,128
Beet Sugar Production	16,400	16,400	14,500	14,800		15,000
Cane Sugar Production	430	287	300	291		300
Total Sugar Production	16,830	16,687	14,800	15,091		15,300
Raw Imports	2,100	1,940	3,000	2,200		3,000
Refined Imp.(Raw Val)	520	635	575	900		700
Total Imports	2,620	2,575	3,575	3,100		3,700
Total Supply	21,682	21,494	20,750	19,638		20,128
Raw Exports	7	7	10	10		10
Refined Exp.(Raw Val)	2,400	2,640	1,450	1,000		1,000
Total Exports	2,407	2,647	1,460	1,010		1,010
Human Dom. Consumption	16,900	17,400	17,000	17,500		17,500
Other Disappearance	0	0	0	0		0

Total Use	16,900	17,400	17,000	17,500		17,500
Ending Stocks	2,375	1,447	2,290	1,128		1,618
Total Distribution	21,682	21,494	20,750	19,638		20,128
1000 MT						

In MY 2010/11, the EU is facing an unprecedented situation in its sugar market. MY 2009/10, the first year after the full implementation of the [Sugar reform](#) [1], saw a reduction in imports beyond expectations, decreasing EU sugar supply. EU sugar imports decreased mainly from ACP [2] countries, as their price guarantees under the Cotonou agreement also ended with the EU sugar reform and production decreased. As a result, the EU MY2010/11 sugar market turned from an all-time supply-driven market to a demand-driven market facing high world market sugar prices. In the 2005-2008 sugar reform, the EU reduced its sugar production quota from 17.4 to 13.3 million MT following a WTO case brought by Brazil and Thailand against the EU sugar export subsidies. It was expected that imports under the Everything But Arms and European Partnership Agreements from developing countries were going to rapidly increase and fill the void created by the reduced production.

[1] http://ec.europa.eu/agriculture/capreform/sugar/index_en.htm

[2] Former colonies in Africa, the Caribbean and Pacific used to have preferential market access to the EU under the Cotonou Agreement.

Author Defined:

Notes to the reader:

- In this report, all sugar is in raw sugar equivalent unless otherwise noted.
- The PSD in this report only pertains to sugar as defined by HS 1701. It hence excludes sugar beet production destined for fermentation or other industrial purposes.
- Conversion factors and methods used in this report:
MY = marketing year; for sugar October- September
Raw cane sugar = 1.07 X Refined cane sugar
Raw beet sugar = 1.087 X White (refined) beet sugar
- Sugar imports for EU inward processing purposes are excluded from this report's PSD as they are entirely re-exported as processed products. Inward processing is the EU program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are suspended when world market prices are lower than EU commodity prices.

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